HOW HIGHER GAS TAXES WOULD COMPOUND DAMAGE FROM LAST YEAR'S BUDGET DEAL

The House of Representatives soon will consider the Intermodal Surface Transportation Act of 1991 (H.R. 2950). This major transportation bill contains a provision to hike the federal gasoline tax from 14 cents per gallon to 19 cents. This 36 percent increase, if enacted, will slow America's recovery from the economic recession caused in large part by last year's record tax and spending increases. The bill would authorize $153 billion in spending on transportation programs during the next five years, with $30 billion of these funds coming from the higher gas tax. The danger is that higher gas taxes and accompanying new spending, combined with record federal and state tax increases and costly new federal regulations already enacted, will mean a return to the economic stagnation of the 1970s.

About 30 percent of the price of a gallon of gasoline is due to taxes. The federal gasoline tax was raised by nearly 56 percent just last year. And since 1980, average state gasoline taxes have almost doubled. To absorb the cost of higher gas taxes in the House legislation, families already paying an average of nearly $400 in gasoline taxes every year will be forced to reduce other consumption and savings to pay for their gasoline needs. A gas tax increase thus will lower living standards for the average American. Many families, especially those with lower incomes, will have to drive less, foregoing vacations or holiday trips to help pay for the federal government's spending binge. And higher gas taxes will hurt workers in trucking and other industries that rely heavily on gasoline.

Costs to the Economy. American business generally will become less competitive if gasoline taxes are raised. Energy and transportation are part of the production and distribution costs of almost every good. Higher gasoline taxes thus will mean higher costs throughout the economy. In fact, according to a 1988 economic study produced by the Lexington, Massachusetts-based Data Resources, Inc., higher gas taxes result in higher inflation, lower economic growth, increased unemployment, a reduced capital stock, and increased state and local government deficits. Similar results were found in a recent study by Wharton Econometrics Forecasting Associates. In addition, Wharton found that higher gas taxes result in a decline in housing construction, automobile production, individual income tax collections, and personal savings.

Some proponents of higher gas taxes claim that increasing the tax will enhance America's energy "security" by reducing oil imports. Yet according to the Department of Energy's 1987 Energy Security Report, the "macroeconomic loss is estimated to [be] over 100 times as high as the estimated energy security benefits." To the extent that energy security may be a legitimate concern, the best way to ensure energy availability is to allow the market to function unimpeded. During the Persian Gulf crisis there were no gas lines. The reason: Prices were free to adjust, allowing supply and demand to balance. Now that the crisis is over, market forces have brought prices back down.

Environmental Smoke Screen. Some environmentalists argue that higher taxes are justified because American consumers should be forced to use less energy in order, they say, to improve the quality of life and to protect the Earth's natural resources. Yet this argument is nothing more than a pretext for these environmentalists to impose their social preferences on the general public.

Calls for energy security and conservation, however, are a smoke screen in this debate. The driving force behind the proposed gas tax increase is the desire of politicians to find money for more pork barrel spending. And H.R. 2950 contains plenty of such wasteful projects. Among them: $35 million for a suspended light-rail system in Altoona, Pennsylvania; $63,600 for an electrically powered bus in Eureka Springs, Arkansas; a research program to build timber bridges; and $233 million for a "Central Area Circulator project" in downtown Chicago.

Funding all the pork barrel projects in the bill is difficult for lawmakers because current budget rules prohibit the use of new tax revenues on increased discretionary spending, such as transportation projects. To evade even this modest level of fiscal restraint, however, H.R. 2950 simply redefines the $30 billion of additional spending financed by the gas tax as "mandatory" spending – the budget category that includes entitlement programs such as welfare and health care.

Besides the many examples of blatant pork barrel spending, H.R. 2950 would pour billions of dollars into highly questionable transportation programs, such as a $13.9 billion "urban mobility" program, a $10.6 billion "rural mobility" program, and a $13.9 billion "flexible" state program. Another $32 billion is set aside for mass transit to fund projects. These typically are plagued by cost overruns, ridership that turns out to be well below expectations, and excessive labor costs.

Veto Threat. Bush Administration officials have informed Congress that the President will veto transportation legislation that includes a tax increase. The Administration notes correctly that a tax increase would harm prospects for an economic recovery. And while such assurances by the White House might be suspect after the President agreed to last year's record tax increase, the recession may finally have convinced Administration officials that raising taxes hurts the economy.

It is to be hoped that Congress, too, has learned this lesson. The productive sector of the economy has been saddled with many new tax and regulatory burdens in the last two years. Raising taxes again this year would undermine the prospects for even modest economic growth.

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